

# Financial Evaluations of Contractors Guideline - 3.5.G (10/31/02)

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## Last Update: (10/31/02) RShibata:kma - 3.5.G.0

This guideline has been revised to:

- raise the contract value threshold at which Treasury and Travel approval is required to \$1,000,000,
- raise the property value threshold at which Treasury and Travel approval is required to \$500,000,
- Remove references to obsolete forms, and
- state that the Team Leader or the Assistant Treasurer in the Sandia Treasury and Travel Organization is authorized to grant financial approval.

## Definitions

Contractor is the seller or the other party to the contract or agreement with SNL.

**Total commitment** is the value of all outstanding procurement actions, funds advanced, and SNL property placed in the Contractor's control.

**Procurement actions** include:

- issuing POs,
- awarding contracts for material, supplies, services, property or construction work,
- entering into agreements for consultant services,
- issuing revisions to POs and contracts, and
- issuing consent to assign contracts.

**Other transactions** include actions between SNL and private businesses in which credit is extended by SNL or SNL-owned assets are provided to the Contractor, such as:

- selling surplus or salvage materials on credit, and
- providing property on loan without an outstanding contract.

**Progress payments** are payments made as work progresses under a contract upon the basis of costs incurred, percentage of completion, or stage of completion achieved.

**Advance payments** are payments made to the Contractor prior to the Contractor's performance of work and incurring of costs or SNL's receipt of materials or services.

**Partial payments or milestone payments** are payments made to the Contractor as he delivers acceptable goods and/or services. In some instances, payments may be made before all required supplies or services are delivered.

**Firms coded "O"** are firms having a high credit rating as determined by Treasury and Travel Services Department which lists and updates this code in the Oracle Supplier Summary.

**Responsible Contractor** is a firm meeting predefined responsibility standards who is qualified to perform the procurement at the time of award.

**Financial strength** is the adequacy of the Contractor's resources to perform the contract.

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## Financial Evaluation Criteria - 3.5.G.1

The SCR judges the degree of responsibility of a prospective Contractor at the time of the award using the following criteria:

- ability to perform,

- willingness to perform,
- special responsibility standards set forth in the solicitation,
- collateral requirements imposed by statute or regulations,
- Subcontractor responsibility, and
- financial strength as determined by a financial evaluation.

For procurement actions or other transactions not specifically requiring financial evaluation (defined under "Actions Requiring Financial Evaluations") the responsibility for determining financial responsibility/capability is delegated to the SCR.

The SCR requests financial evaluations from Treasury and Travel Services Department when:

- the Contractor has been selected to receive the:
  - order,
  - contract, or
  - property placed on loan,
- prior to placement of the order/contract, or property placed on loan,
- prior to placement of an revision to a procurement action which originally required financial evaluation and change(s) now increase the commitment by 10% above amount last approved,
- cumulative commitment resulting from the change exceeds the original financial approval limit (see "Authorized Approval Limits" section for approval limits), and
- payment terms are changed to the disadvantage of SNL (e.g., from lump sum to progress payments).

## **Actions Not Requiring Financial Evaluation - 3.5.G.1.a**

No financial evaluation is required for:

- firms coded "O" in the Supplier Summary of the Sandia Oracle System,
- ICOs and FAOs,
- contracts requiring performance and payment bonds obtained by the Contractor,
  - **Important:** It is the SCR's responsibility to ensure that the Contractor acquires performance and payment bonds prior to start of work.
- contracts with state universities,

- consultant agreements, and
- agreements for the services of instructors, speakers, or lecturers.

## **Actions Requiring Financial Evaluations - 3.5.G.1.b**

Unless exempted under the **previous** section, financial evaluation using the Sandia Treasury and Travel Organization is required when procurement actions or other transactions with Contractors involve:

- contracts of \$1,000,000 or more (including the value of all options),
- providing Government-Furnished Property valued at \$500,000 or more through either a:
  - contract, or
  - property on loan to a private individual or company initiated with a Property Material Authorization Number (PMAN).

**Note:** Property Management Systems Department will route the PMAN to Treasury and Travel Services Department in these cases.

- assignment of a contract that originally required financial evaluation,
- making advance payments in excess of \$100,000,
- making progress payments,
- making partial payments if the value/acceptability of the partial receipt is dependent upon receipt of all items or services called for in the contract,

**Example:** A contract for 10 each of an item, or for 10 separate component items, to be incorporated into a system, where partial receipts would be of no value to SNL unless the total 10 are received in accordance with the contract delivery terms.

**Note:** SCR is responsible for determining applicability of this condition.

- doing business with an individual or company which has filed for creditor protection under the U.S. Bankruptcy Laws, and
- a determination (for whatever reason) by the SCR that a potential financial risk exists.

## **Financial Evaluations Performed by the SCR - 3.5.G.1.c**

The SCR has the authority to perform financial evaluations in those cases not specifically requiring evaluation by Treasury and Travel Services Department as specified above in "Actions Requiring Financial Evaluation." In making a determination that a prospective Contractor is qualified to perform, the SCR should evaluate and consider the financial strength of the

company. The following sources and information may be used by the SCR when making a financial evaluation:

- Supplier Summary in Oracle to determine if the Contractor has an approved credit rating of “O,”
- company balance sheets and profit and loss statements,
- reports from commercial financial services and credit organizations, e.g., Dunn & Bradstreet, Standard and Poor, etc.,
- sales data or any other financial information provided with a proposal,
- records and experience data, including knowledge of personnel within SNL Procurement and other contracting offices,
- other sources such as publications, Contractors, subcontractors and customers of the prospective Contractor, financial institutions, Government agencies, business and trade associations, and
- financial data or information on file in the Treasury and Travel Services Department which is available for SCR review.

**Note:** The SCR may refer procurement actions to Treasury and Travel Services Department for formal evaluation for any procurement less than \$1,000,000 even if the action is not specifically defined as requiring financial evaluation. Some examples are:

- The SCR identifies a financial risk which may jeopardize the ability of the prospective company to perform (i.e., Auditing has advised the SCR of discrepancies in financial statements).
  - The SCR learns that the prospective company has become insolvent, has filed for bankruptcy or has requested assignments of payments.
  - The SCR is unable to find enough information on a contractor to enable the SCR to make an adequate evaluation.
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## Financial Evaluation Process - 3.5.G.2

The SCR shall initiate a formal review through Treasury and Travel Services Department for all procurement actions which require financial evaluation.

Treasury and Travel Services Department will make a decision on a financial approval request based on evaluation of the financial status of the concern and the value of the proposed transaction. SCR action following receipt of the decision will depend on the type of decision

reached by Treasury and Travel Services Department.

The SCR shall:

- use Form SF 9461-G, Request for Financial Evaluation, and
- complete the form for each procurement requiring financial evaluation from Treasury and Travel Services Department.

**Note 1:** Treasury and Travel Services Department returns the form with the decision and retains a copy for Treasury and Travel Services Department files.

**Note 2:** SCRs may fax or e-mail requests to Treasury and Travel Services Department. When the financial evaluation is completed, Treasury and Travel Services Department transmits the results through same.

## **Authorized Approval - 3.5.G.2.a**

The Team Leader or the Assistant Treasurer in Sandia Treasury and Travel have the authority to grant financial approval

Treasury and Travel Services Department is responsible for updating the "O" codes in the Supplier Summary of Sandia Oracle System. Annually, "O" codes in the Active Contractor Directory are compared with the most recent credit reports such as Dunn & Bradstreet. "O" codes are continued/added/deleted depending on the current financial status of the Contractor.

## **SCR Actions - 3.5.G.2.b**

SCR actions after financial evaluation are:

### **If Treasury and Travel Services Department...**

approves the financial evaluation,

withholds the evaluation decision pending receipt of additional or updated financial information,

approves contingent on inclusion of more favorable payment terms,

### **Then the SCR...**

proceeds with the proposed transaction.

obtains the required information and routes to Treasury and Travel Services Department for review and a new evaluation.

attempts to negotiate more favorable payment terms. If successful, proceeds with the proposed transaction. If unsuccessful, treats the financial decision as a denial.

## **Denial of Financial Approval - 3.5.G.2.c**

If financial approval is denied, the SCR may require that the prospective Contractor obtain

either:

- a financial guaranty from a third party, or
- a line of credit from a financial institution and provide a copy of the agreement to Treasury and Travel Services Department.

## **Financial Guaranty - 3.5.G.2.d**

If a financial guaranty is offered by a prospective Contractor, the SCR will request financial approval of the guarantor by submitting Form SF 9461-G to Treasury and Travel Services Department.

The SCR shall:

- obtain the information needed to complete the Sandia Guaranty Agreement, and
- submit five copies of the guaranty to the guarantor for completion and original signatures.

A copy of the executed guaranty is distributed to each as follows:

- guarantor,
- guarantee,
- Procurement corporate file,
- Treasury and Travel Services Department, and
- Legal Organization.

The guarantor is usually the parent company or major stockholder of the prospective Contractor (the guarantee or "principal" referred to in the guaranty). The SNL guaranty agreement format was designed for a parent company as the guarantor. Copies of the approved standard formats for Individual and Corporate Guarantees can be obtained in the SCR manual. If a deviation from the standard format is required to accommodate another type of guarantor, or if any of the wording is revised for any reason, Legal must approve the guaranty as written.

**Note:** Sandia Finance must approve the guarantor.

## **Contractors with Financial Difficulties - 3.5.G.2.e**

Denial of financial approval for a prospective Contractor may be an indication that the concern is not a responsible Contractor and, therefore, is not eligible for award of the procurement. However, there may be instances (sole-source situations for example) where it may be necessary to contract with concerns which have been denied financial approval.

Under such circumstances, the SCR may obtain authority to contract from SNL Legal. Such requests should be submitted by memo through the Director of Procurement and Logistics. The memo should contain:

- description of the item/service, intended use, and the need/urgency of the requirement,
- the basis for Treasury and Travel Services Department's denial of the Request for Financial Approval (the SCR will obtain the relevant information from Treasury and Travel Services Department),
- record of prior experience or past performance, if any, with the concern,
- reasons the item/service cannot be obtained from another concern, and
- rationale for assuming that the proposed procurement transaction can be satisfactorily completed by the Contractor denied financial approval.

If the required approvals are obtained, the SCR may proceed with the proposed procurement transaction. Copies of the approval memo should be distributed to Treasury and Travel Services Department.

## **Bankrupt Firms - 3.5.G.2.f**

Treasury and Travel Services Department will provide the SCR with guidance and direction for dealing with bankrupt concerns, concerns against which bankruptcy petitions have been filed, and concerns which have filed voluntary petitions for bankruptcy. If the SCR learns that a concern has become insolvent or has filed for protection under U.S. Bankruptcy Laws, notify Legal, who will distribute the information to the buying staff through the Procurement Policies and Procedures Team.

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## **References - 3.5.G.3**

- Policy and Guideline 6.3 - Contract Financing
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[Randy Shibata](#)



[Karen Archibeque](#)

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